

# Entrepreneurship

## Unit 3.3: The 4 Components of the Marketing Mix (KEY)

Student: \_\_\_\_\_ Date: \_\_\_\_\_ Period: \_\_\_\_\_

### 1. The Marketing Mix (Also known as the 4 P's)

- Product                      Answers: What are you selling?
- Price                        Answers: How much is it?
- Place                        Answers: Where can I get it?
- Promotion                Answers: Why should I buy it?

### 2. Products/Services

- ① Product brands                      Example: Ford, Dell, Kellogg's
- ② Product Mix
  - **Categories:** Cereal, fruit snacks, cookies and crackers, etc
  - **Cereal:** Frosted Flakes, Froot Loops, All Bran, etc.

### 3. Define Inventory Methods: Keeping track of available stock of goods

- Tracking inventory on a daily basis as it arrives or is sold is called: Perpetual Inventory. Computers allow "accurate" and up-to-date information.
- **Physical Inventory:** Mistakes can be made, items are stolen or lost. Conducting a physical count of inventory is a good idea and should be done periodically to get "actual" numbers.
- Suppliers ship inventory just before it's used to keep stock at a minimum is called: Just-in-Time

### 4. Pricing Strategies

You're in business to make profit. Know which pricing strategies to utilize.

- Pricing Strategies**
- ✓ Mark-up
  - ✓ Cost-based
  - ✓ Competition-based
  - ✓ Demand-based

- Psychological Pricing**
- ✓ Discounting
  - ✓ Credit

### 5. Cost-based Pricing Method

- Utilizes Cost + Mark-up (\$ ~~-or-~~ %)

**Cost + \$ MU = Price**

(\$500 sofa + \$300 MU = \$800)

Method best used for: services, high price/luxury items; i.e. cars, furniture, accountants

**Cost + % MU = Price**

(\$50 muffler + 60% MU = \$80)

\$50 x .60 = \$30

\$50 + \$30 = \$80

Method best used if: offer a lot of different products/services and everything is marked-up the same; i.e., convenience stores, auto part stores

## 6. Competition-based Pricing Method

Lower or raise price of products/services based on: what the competition is doing.

- If Burger King offers Whopper for \$1, McDonalds changes price of Big Mac to \$1.
- Retailers employ people whose job is to check competitor pricing, so they can stay in-line or offer lower prices.
  - Some retailers will offer coupon matching

## 7. Demand-based Pricing Method

Price is raised or lowered based on supply and demand.

Give Example: Tickle Me Elmo sold for \$1,000 (and up) the Christmas it was introduced. This was due to higher-than-anticipated demand and limited stock.

## 8. Psychological Pricing Methods

- |  |   |
|--|---|
| ① <b><u>Prestige Pricing:</u></b>      | Denotes status  |
| ② <b><u>Odd/Even Pricing:</u></b>      | Odd numbers suggest bargains (\$19.99); Even numbers suggest higher quality (\$20).                 |
| ③ <b><u>Price Lining:</u></b>          | Pricing items in low, moderate, and high-priced categories.   |
| ④ <b><u>Promotional Pricing:</u></b>   | Lower prices offered for a limited time to stimulate sales  |
| ⑤ <b><u>Multiple-unit Pricing:</u></b> | Items priced in multiples to suggest a bargain and to increase volume sales (3 for \$1)             |
| ⑥ <b><u>Bundle Pricing:</u></b>        | Bundling several <b>complementary products</b> together and selling them for a lower combined-price |

## 9. What are Discount Pricing Methods? Offers customers reductions from the regular price.

- ① Cash discounts: Given for prompt payment

**Example:** (2/10, n/30) A 2% cash discount if invoice paid in 10 days. Otherwise, entire amount is due within 30 days of invoice date.

Write the terms for a 3% cash discount given if the bill is paid in 15 days. Full amount is due within 30 days of invoice date. 3/15, n/30

- ② Quantity discounts: The larger the order, the cheaper the per-unit price.

1-1,000 units = \$5 each  
1,001-5,000 units = \$4 each  
5,001 + units = \$3 each

- ③ Trade discounts: Given to distribution channel members who provide marketing functions.

- ④ Promotional discounts: Given to wholesalers & retailers for carrying-out manufacturer promotions. May be in cash or promotional materials supplied by manufacturer.

- ⑤ Seasonal discounts: Given to customers who buy seasonal items in the off-season. (i.e., heavy coats in middle of summer)

**10. What is Credit?** Allows customers to obtain products or services with the promise to pay later.

- What risks do Retailers take if they allow customers to Buy “On Account?”  
Take the chance of late payments or defaulting
- What is the disadvantage of allowing customers to use credit cards to make purchases?  
Costs business money in service fees to accept credit cards

**11. What is the “Channel of Distribution?”**

The path a product takes from producer to final user (consumer)

**12. Types of Channels**

- Direct
- Indirect (intermediaries)

**Why would you use an indirect channel for distribution?** Use if results in lower cost than you would charge if you were handling all the phases of distribution yourself or if middle men have a “ready-made” network for wider distribution.

**13. Channels of Distribution includes:**

- transportation
- storage
- product handling

**14. What are the 4 areas of the Promotional Mix?**

- ① **Advertising:** Paid non-personal presentation of ideas directed toward a mass audience.
- ② **Publicity:** Free placement of newsworthy items about company, etc. in the media.
- ③ **Personal Selling:** Giving an oral presentation to one or more potential buyers.
- ④ **Promotions:** Use of incentives or interest-building activities to create demand. Be creative!!

**15. List 4 Advertising Methods (and provide examples):**

- ✓ Broadcast (TV, radio)
- ✓ Print (Magazines, newspaper, catalogs)
- ✓ Outdoor & Transit (Billboards, bus)
- ✓ Internet (Banner ads)

**16. List 4 Publicity Methods:**

- ✓ News releases (aka press releases)
- ✓ Feature articles
- ✓ Press conference
- ✓ Seek interviews

**17. What is Public Relations:** Any activity that creates goodwill for a business

**18. Name a company that utilizes Personal Selling** Old Navy, Olive Garden, automobile dealerships

**19. Give examples of how businesses can promote themselves:**

- |                              |                               |
|------------------------------|-------------------------------|
| ✓ <u>Incentives</u>          | ✓ <u>Sweepstakes/Contests</u> |
| ✓ <u>Displays/Tradeshows</u> | ✓ <u>Sponsorships</u>         |
| ✓ <u>Premiums</u>            | ✓ <u>The sky's the limit!</u> |
| ✓ <u>Rebates</u>             |                               |
| ✓ <u>Samples</u>             |                               |